

**REGULATIONS**

45 CFR 302.55  
45 CFR 303.52  
45 CFR 304.12  
45 CFR 305.46

Federal regulations provide for the payment of incentives on ADC collections and on non-ADC IV-D collections. Incentives are paid to the State based on a ratio of statewide ADC collections to statewide IV-D administrative costs and statewide non-ADC IV-D collections to statewide IV-D administrative costs. Cost/collection ratios are converted to incentive payment percentages based on the table shown in Exhibit 1 at the end of this chapter. The ADC and non-ADC incentive percentages are then applied to ADC and non-ADC collections, respectively, to obtain the incentive payment amounts for the State.

Incentives payable to states for non-ADC IV-D collections are limited to a percentage of incentives payable on ADC collections. The maximum non-ADC incentive is 115% of the ADC incentive.

States must share federal incentives with local governmental units (e.g., counties) that participate in the costs of carrying out IV-D activities. Payments must be based on a formula that takes into account the efficiency and effectiveness of the local unit in performing functions under the IV-D program. Michigan's "Local Child Support Incentive Distribution Process Formula" is provided in Exhibit 1 at the end of this chapter.

**COLLECTIONS  
SUBJECT TO IV-D  
INCENTIVES**

Federal IV-D incentives are payable on the following types of support collections in IV-D cases:

1. Child support;
2. Spousal support when:
  - The payer is obligated to support a spouse or former spouse and at least one child; and
  - The payer's (former) spouse and child for whom support is ordered live together (or lived together when an arrearage accrued); and
3. Medical support collected on dollar specific medical support obligations.

Support collections subject to IV-D incentive payments that are classified as ADC collections are:

- Child and spousal support collected in ADC IV-D and ADC arrearage cases to reimburse the State for ADC granted to current and former ADC recipients; and
- Medical support collected on dollar specific obligations on behalf of ADC recipients in ADC IV-D cases whether the collections are payable to the State to offset Medicaid expenditures or payable to the family.

Support collections subject to IV-D incentive payments that are classified as non-ADC collections are:

- Child and spousal support collected and payable to families in non-ADC IV-D cases.
- Medical support collected on dollar specific obligations in non-ADC IV-D cases whether the collections are payable to the State to offset Medicaid expenditures or payable to the family.

## **PAYMENT FREQUENCY**

The local incentive distribution formula guarantees minimum incentive payments to assist counties in estimating income for budgetary purposes. Minimum incentive payments on child and spousal support collected in IV-D cases, except collections made on behalf of other states, are issued to counties on a monthly basis. Incentive payments for each month except September are scheduled to be issued by the end of the following month. Incentives for September cannot be issued until December due to the State's fiscal year closing process. Incentive payments may be delayed if deposit or collection reports are inaccurate or untimely. Refer to Chapters 620 and 640 for financial deposit and collection reporting requirements.

Incentives on collections made on behalf of other state IV-D agencies and incentives on medical collections are paid to counties on a quarterly basis. Final payments to distribute any ADC and non-ADC incentive funds available after payment of monthly and quarterly incentives are paid on a fiscal year basis. The federal fiscal year begins on October 1 of each year and extends through September 30 of the next year. The final incentive payment is issued by February 28 following the end of the fiscal year if complete cost and collection information from all counties has been received by the Office of Child Support.

## **MONTHLY INCENTIVE PAYMENTS**

Net ADC collections credited to the State child support account are used as the basis of calculating minimum 5% ADC and equal non-ADC IV-D incentives guaranteed by the formula. ADC collections used to compute those minimum incentive payments are:

- ADC collections from FOCs credited to the State child support account. These are collections deposited and reported on the FIA-29, Financial Deposit Report, as child and child/spousal support for which the MFIA Cashier Unit has issued receipt vouchers during the month. See Chapter 620 for information on deposit requirements and FIA receipt vouchers.
- Client returned support. These are child and spousal support collections received by ADC clients after the ADC payment effective date which have been remitted to local FIA offices by clients. Support specialists report these collections to OCS Central Office on form FIA-316, Incentive Payment Request. OCS Central Office enters collection records into the Child Support Enforcement System. See Chapter 615 for more information on the recovery of misdirected collections.

ADC child/spousal support collections for a month are then adjusted for refunds of support, IRS negative adjustments and ADC IRS refund recoveries to determine the net collection amount. There are two types of adjustments. IRS negative adjustments and refunds issued to clients, taxpayers, and the Friend of the Court during the month are deducted from ADC collections for that month. Refunds and ADC IRS refund recoveries returned to the State are added to collections for the month in which the funds are credited to the State child support account. Refunds may be returned to the State by the FOC when it is determined that the refund was requested in error or the amount requested was too high. Undeliverable refunds are also returned to the State.

Monthly incentives are computed at the rate of 10% of net ADC child/spousal support collections. The incentive amount is then subject to adjustment. Adjustments are made to deduct the county share of Internal Revenue Service and Michigan Treasury Department offset service and/or notice charges and may be adjusted as a result of audit findings. Adjustments are also necessary when net ADC collections for a month are negative. This may occur, for example, when refunds exceed collections.

A State Treasury warrant (check) for the net incentive payable is mailed to the County Treasurer. Incentive payment documentation is sent to the Friend of the Court office. Incentive payment documentation consists of:

- Report FIP-002, Incentive Payment Worksheet
- Report CCR-005, Support Collections Received
- Report CRS-102, Client Returned Support
- Report RIA-004, Refunded Support Collections

Facsimiles of those reports are provided in Exhibits 2-5 at the end of this chapter.

**INTERSTATE AND  
MEDICAL  
COLLECTION  
INCENTIVES**

The minimum incentive on support collected on behalf of other state IV-D agencies and on medical support collected on dollar specific obligations is paid on a quarterly basis. That incentive is calculated at the rate of 5% of ADC collections and 5% of non-ADC collections, not to exceed 10% of ADC collections, as reported on Lines 19-21 in Columns I and II on form FIA-284, FOC Title IV-D Quarterly Report. Where FIA-284 reports covered more than one county, the collections are allocated to individual counties based on the net ADC collections shown on the monthly FIP-002 incentive worksheets for each county.

A State Treasury warrant is sent to the County Treasurer and a notice (see Exhibit 6) of the payment is sent to the FOC office.

**FINAL INCENTIVE**

Incentive funds remaining after distribution of the monthly incentives on child/spousal support and quarterly incentives on interstate and medical collections are distributed to counties based on a formula. Available incentives are apportioned between ADC and non-ADC in the same ratio as set by the federal incentive formula.

For each county, ratios of ADC collections to total IV-D program costs and non-ADC IV-D collections to total IV-D program costs are calculated. The following data is used for those calculations:

- IV-D program costs considered in the collection/cost ratios are Friend of the Court and prosecuting attorney Cooperative Reimbursement Program (CRP) costs.
- ADC collections are net ADC collections as listed on Report FIP-002, Monthly Incentive Worksheet, and ADC interstate and medical collections as reported in Column I on Lines 19-21 of the FIA-284.
- Non-ADC IV-D collections are collections reported in Column II on Lines 18-21 of the FIA-284.

When individual county figures are not provided for multiple county circuits, collections from FIA-284 reports and CRP costs are allocated to the individual counties based on net ADC child/spousal support collections received and accounted for by the state.

Each cost/collection ratio is then converted to a percentage which represents the target incentive payment rate. The rate is a target payment rate since the actual payment rate is dependent upon the amount of incentive funds available for distribution.

The percentage, not to exceed 10%, is based on the formula  $[(\text{ratio} \times 7) / 5] + 3$ . For example, a cost/ADC collection ratio of \$1.95 would be converted to a 5.73% target ADC incentive payment rate as follows:  $1.95 \times 7 = 13.65 / 5 = 2.73 + 3 = 5.73\%$ . A cost/non-ADC IV-D collection ratio of \$6.55 would be converted to a 10% target non-ADC incentive payment rate  $[6.55 \times 7 = 45.85 / 5 = 9.17 + 3 = 12.17\%$  or the 10% maximum].

The ADC percentage is applied to ADC collections to derive a target ADC incentive and the non-ADC percentage is applied to non-ADC IV-D collections to derive a target non-ADC incentive.

Target ADC and non-ADC incentives are then compared, respectively, to the 5% ADC and equal non-ADC minimum incentive payments issued to the county. When the minimum ADC incentive paid to a county equals or exceeds the target ADC incentive and the minimum non-ADC incentive equals or exceeds the target non-ADC incentive, the county is not entitled to a final incentive payment. A county **may** receive a final incentive payment when:

- the minimum ADC incentive is less than the target ADC incentive,
- the minimum non-ADC incentive is less than the target non-ADC incentive; or
- both minimum ADC and non-ADC incentives are less than target ADC and non-ADC incentives, respectively.

Remaining ADC and remaining non-ADC incentives are distributed to counties using a process which equalizes the percent of payments to target incentives that each county receives. For example, a county that has received only 50% of its target ADC incentive receives a share of remaining ADC incentives before a county that has received 97% of its target ADC incentive.

When applicable, a State Treasury warrant for the final incentive payment is sent to the County Treasurer. A notice of payment or non-payment of the final incentive is sent to the Friend of the Court.